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THE COTTON SITUATION

Summary

Major factors in the cotton situation, as reported by the Bureau of Agricultural Economics, include a high domestic consumption during the past few weeks, exceptionally steady prices, unusually high spot prices of American cotton relative to prices of new-crop futures contracts and relative to spot prices of foreign cottons, continued small exports, and small stocks of "free" American cotton.

Domestic cotton consumption has continued relatively high the past few weeks, despite a slight decline in the seasonally adjusted weekly rate of activity during the latter part of December and in January. Consumption in January was nearly two-fifths larger than a year earlier and, with one exception, was the largest for the month in 10 years. During most of January sales of cotton textiles by domestic manufacturers were probably about equal to or at least not materially below production. But in late January and the first 3 weeks of February, sales apparently were somewhat below output.

The general cotton textile situation in foreign countries appears to have shown no major net change in recent weeks. Restricted sales and reduced mill activity in some countries were roughly offset by improvements in others. January mill consumption in foreign countries, however, was considerably smaller than in January last year. From August through December this season mills in foreign countries consumed about 6 percent less cotton than in the corresponding period last season. This consumption, nevertheless, was the third largest in history and much larger than average. Foreign consumption of

American cotton, on the other hand, was the smallest in 20 years, and about a third less than the average for this 5-month period during the past 10 years.

Domestic prices of cotton have continued exceptionally steady. During the past few weeks, Middling 7/8 in the 10 designated markets has fluctuated within a few points of 8½ cents per pound. The stability of prices is attributable in a large measure to Government loans. On February 23 reported Government loan stocks exceeded 11,100,000 bales. This is equivalent to nearly a fourth of the total world supply of cotton for the current marketing season.

Exports of American cotton continue exceptionally low. During the 8 weeks ended February 22 they were about half as large as the comparatively small exports of a year earlier. In January they were the smallest for that month since 1872, or in 67 years. Total domestic exports from August through January were 43 percent less than a year earlier, the smallest for the period since 1881-82.

Factors contributing to the small exports include: (1) Record stocks of foreign cotton on hand at the beginning of the season, (2) near-record foreign production, (3) the smallest total consumption of cotton in foreign countries so far this season in 3 years, and (4) an exceptionally large degree of hand-to-mouth purchases of American cotton by foreign countries.

It is expected that exports of American cotton during the last half of the season will be higher relative to a year earlier than during the first half. This seems likely in view of the greatly reduced foreign stocks of American cotton at mid-season and the fact that foreign consumption of American is now only about an eighth less than in the corresponding period last season.

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PRICES

Domestic prices of American cotton continued exceptionally steady during the past month as has been the case since the beginning of the season. From January 24 to February 24 the average daily price of Middling 7/8 in the 10 designated markets fluctuated between 8.44 and 8.58 cents per pound. In January, prices in these markets averaged 8.54 cents, the same as in January 1937, but 22 to 33 percent lower than in the four Januarys from 1934 through 1937.

The stability of domestic cotton prices during the current season, as well as during the past season, may be attributed in a large measure to Government loans. Government loan stocks now total a little over 11-1/4 million bales including slightly over 4-1/4 million bales of the 1938 crop, nearly 5-1/4 million bales of the 1937 crop and almost 1-3/4 million bales from earlier crops. As of February 1, such stocks represented about two-thirds of the total domestic stocks of American cotton, leaving a total of about 6-1/4 million bales of "free" American cotton in all hands in the United States. This is the third smallest stocks of "free" cotton as of that date in 15 years.

The strengthening effects of the relatively small stocks of "free" cotton on spot prices, together with uncertainties with respect to developments during the 1939-40 season, have resulted in unusually high spot prices of American cotton relative to prices of new crop futures contracts and relative to spot prices of foreign cottons. The unusual spot-futures price relationships appear to be encouraging an exceptionally large degree of hand-to-mouth purchasing. The relatively high price of American cotton in relation to foreign growths is also encouraging foreign manufacturers to use foreign cottons rather than American.

During recent weeks Liverpool prices of American cotton have increased further relative to those of foreign cottons, particularly Egyptian. On February 17, the price of Egyptian Full Good Fair Uppers was only 15 percent above the price of American Middling 7/8. In December the corresponding percentage averaged 19 and in September, 28. In recent weeks, the prices of three types of Indian cotton (Oomra, Broach and Sind) have averaged only about 75 percent as high as those for American Middling and Low Middling at Liverpool, whereas the average price ratio in August was 81 and in February last year, 85. The Liverpool price quotations for Brazilian Sao Paulo Fair are now about 5 percent less than those for American Middling 7/8, whereas at the beginning of the current season, they were about 3 percent less and in February last year were about the same as for American Middling 7/8.

EXPORTS

Domestic exports further reduced;
lowest in January since 1872

The 290,000 running bales of American cotton (equivalent to bales of 500 pounds) exported in January were 55 percent less than the comparatively small exports of January last year, and the smallest for the month since 1872, or in 67 years. They were 57 percent smaller than the 10-year, 1928-37, January average.

Total domestic exports for the first 6 months of the current season, of 2,200,000 bales, were 43 percent less than in the first half of last season, and the smallest for the period since 1881-82.

Factors contributing to the small exports include: (1) Record stocks of foreign cotton on hand at the beginning of the current season, (2) near-record foreign production, (3) the smallest total consumption of cotton in foreign countries so far this season since 1935-36, and (4) an exceptionally large degree of hand-to-mouth purchases of American cotton by foreign countries.

The unusually high prices of American cotton relative to futures contracts and relative to foreign growths, largely as a result of large Government loan stocks, have undoubtedly accounted for much of this hand-to-mouth purchasing. High prices of and difficulty of obtaining war-risk insurance on warehouse stocks in at least some of the important foreign consuming countries has also played a part. Efforts on the part of certain foreign powers to conserve their foreign exchange along with the greater emphasis placed on products considered more essential for military purposes also have probably contributed to this practice. The numerous import duties and other international trade restrictions throughout the world have been additional but inter-related factors contributing to the reduced volume of exports and more especially to the reduced value of domestic cotton exports.

It is expected that exports of American cotton during the last half of the season will be considerably higher relative to a year earlier than during the first half. This is based in part upon the fact that mid-season stocks of American cotton in foreign countries were more than one-fourth smaller than a year earlier whereas foreign consumption of American cotton is now running only about one-eighth less than at the same time last season.

Indian exports continue large; Brazilian reach record high

From August through January, exports of Indian cotton were almost twice as large as in the corresponding months last season despite the fact that consumption in India has been at a new record high. Indian exports for the first 6 months of the current season were, with the exception of the 1936-37 season, the largest for the corresponding months since 1930-31. In January, exports of Indian cotton continued larger (41 percent) than a year earlier, but not as much so as in the preceding months of the season. This is not particularly surprising in view of the unusually large stocks of cotton on hand in India at the beginning of the season and since the current Indian crop, which only within the past month or two has begun to move in volume, is considerably smaller than last season's crop. These factors make it seem quite likely that exports of Indian cotton during the remainder of the season will make a less favorable showing in comparison with a year earlier than in the first half of the season.

From August through January, exports from Egypt were 17 percent smaller than in the corresponding period last season and the smallest since 1932-33. From August through November, exports from Brazil established a new high and exceeded those of a year earlier by about 12 percent.

DEMAND AND CONSUMPTION

UNITED STATES: Mill activity and cotton textile sales continue relatively high

Domestic cotton mill activity and cotton consumption continued unusually high during January and the first half of February. The 592,000 bales of cotton consumed during January was 37 percent more than in January last year and, with the exception of 1937, the largest consumption for the month in 10 years. On the whole, sales of cotton textiles by domestic manufacturers during January appear to have been about equal to or at most only slightly below output. During the latter part of January and in the first half of February, however, manufacturers' sales of cotton textiles were apparently somewhat below production, but were probably still comparably high in relation to most recent years. Smaller sales than shipments are said to have considerably reduced unfilled orders in a number of lines of goods during the last few weeks. From August through January, domestic mills consumed nearly 3,400,000 bales of cotton. This total was 10 percent larger than in the first half of last season and, with the exception of 1936-37, the largest for the period since 1928-29.

A continuation of the average rate of consumption existing in the first half of the season would give a total for the season of about 6-3/4 million bales including about 125,000 bales of foreign cotton. A continuation of the rate existing in January and early February would result in a total consumption in excess of 6-3/4 million bales. Last season total domestic consumption amounted to 5-3/4 million bales and in 1936-37 to nearly 8 million bales, which was the largest on record. The 6-1/3 million bales consumed in 1935-36 was the largest, with the exception of 1936-37, in any season since 1928-29.

FOREIGN COUNTRIES: Total consumption third largest in history; consumption of American smallest in 20 years

From August through December, mills in foreign countries are estimated to have consumed about 8,800,000 bales of cotton. This is 600,000 bales or 6 percent less than the record high consumption in the like period last season and slightly less than in the first 5 months of 1936-37, according to data released by the New York Cotton Exchange Service. This was, however, the third largest cotton consumption by foreign mills for these months in history. About two-thirds of the decline as compared with last season was accounted for by reduced consumption of American cotton.

The 1,980,000 bales of American cotton estimated to have been consumed from August through December this season was 16 percent less than a year earlier and nearly one-third less than the average for this period in the past 10 years. Such data as are available indicate that this was the smallest foreign consumption of American cotton for these months since 1918, or in 20 years. As previously indicated the price of American cotton has been increasing relative to foreign growths during the past several months and is now much higher than in the early part of the season. This and the fact that current stocks of American cotton outside the United States are nearly one-fourth less than a year earlier (whereas at the beginning of the season they were one-fifth larger), makes it seem likely

that during the remainder of the season foreign consumption of American cotton may average lower relative to the corresponding period last season than from August through December.

In December the estimated total mill consumption of all cotton in foreign countries, of 1,800,000 bales, was only 4 percent less than in December 1937, but consumption of American cotton was 13 percent less than December last year. Total consumption in foreign countries in January appears to have shown little change as compared with December and may have been fully as high relative to a year earlier as in December. Forwardings of American cotton to foreign mills in January would suggest that consumption of American cotton by foreign mills during the month was fully one-eighth less than in January last year.

EUROPE: 1/

January brought no changes of major consequence in the European cotton situation. Anxiety over the trend of international political affairs deepened until about the middle of February when it was somewhat relieved by pronouncements of national leaders. Its effect throughout the greater part of January, however, was to dampen buying initiative.

The continuation of an international price situation in which American cotton for delivery in later months is quoted successively lower than for nearby delivery and in which deliveries in the months of heavy movement of the next crop have been priced by more than a cent a pound under nearby deliveries remains also a factor. The influence of this is to spur liquidation of cotton and of goods and to restrict new buying to small quantities for nearby delivery. Inventories in the channels of trade appear to have been drawn down and arrears are presumably developing which at some time will normally have to be made good.

With any clear improvement in the international political outlook, some increase in trade activity in the remaining months of the season might occur, but so long as prices remain in their present constellation a continued tendency to hand-to-mouth trading is but logical. Meanwhile the complexities which spinners face in their efforts to lay down programs of continuous operation and the intensity of competition in most of the free-exchange countries inspire more than usual interest in cheap cotton. Consequently exotic growths, especially Brazilian which have been priced to sell freely, are moving into consumption with more than usual ease.

United Kingdom

The end of January found the British textile industry continuing to operate on a hand-to-mouth basis with activity estimated between 65 and 70 percent for spinning mills and at about half of normal in the weaving sections but with prospects moderately improving. Thus far, however, mill operations, which in the United Kingdom ordinarily show much greater seasonal expansion than the United States, had been able to make little of the normal seasonal gain over the low levels of summer. Employment of workers in textile establishments in January showed little changed from December.

1/ Based very largely upon report prepared by the Bureau's London and Berlin offices, mailed from London February 15.

A mild improvement in the demand for piece goods which was evident in the early part of January was short-lived and for the month as a whole sales of cotton goods by manufacturers were probably less than the greatly restricted output. Home trade, though considerably restrained, was the chief reliance of the market and a number of sizeable orders for government and hospital goods were a sustaining influence. With these exceptions small orders seemed to be the rule.

Retail demand in the home market apparently continues moderately good. Although according to the Bank of England's calculations retail sales fell off considerably in the London areas in December, the total for the United Kingdom as a whole showed a somewhat surprising gain on the basis of value, of 1.9 percent, over December 1937. Sales of piece goods, however, were 6 percent below those of 1937 while household goods were down 3.6 percent and dress materials 5.8.

Germany

The German cotton textile industry moved into 1939 with manufacturing operations at high levels after 2 years of record production. The general picture continued to be one of inability of the industry, for a variety of reasons, to meet all the demands being made upon it. The conditions are those of general scarcity of textiles, without a sympton, as yet, of any coming change in either supply (including non-cotton as well as cotton) or demand factors that should materially alter this situation.

January reports have confirmed the deterioration in supplies of raw cotton with which Germany seemed to be threatened upon acquisition of the Sudeten and Austrian mills simultaneously with the unfavorable development of the trade balance. It is now indicated that a general reduction of about 10 percent in the raw cotton allotments to the spinners was made in the last quarter of 1938, with even larger curtailments for mills which had above normal occupation. These were followed by a further curtailment as of January 1, 1939. such a step was unavoidable - if the Sudeten and Austrian spinners were to have raw cotton - in view of the fact that German cotton imports have recently shown a decline, rather than the increase that was needed.

Plans for expansion in staple fiber production are being pushed more aggressively - probably because of the drop in cotton supplies - with a view to raising output up to a rate of 400,000,000 pounds annually by April 1939. Much of this new production will be for the Austrian and Sudeten mills. It is also indicated that nearly all of any increased output of staple fiber from now on will replace cotton rather than wool, partly for technical reasons but presumably also because of the greater need in that direction.

The shortage of various cotton textiles - after a long period of taboo in the German press - is finally beginning to receive a certain amount of cautious and indirect attention. It is denied that there is any "goods hunger". The point is made that actual production is at high levels, and

that the indices of retail textile business show a large volume of sales in all lines. The shortages - where they are any - are thus said to be relative, resulting from a vastly increased consumer demand, and do not mean real hardship. At the same time, however, it is indicated that State requirements, which have taken and must continue to take precedence over private needs, are at least partly responsible for the shortage of various textiles. The implication of these statements is that present conditions of demand in relation to supply must continue to be faced and that consumers must observe discipline and adjust themselves to it until such time as improvement can be brought about.

Stocks of cotton goods in the hands of manufacturers, wholesale distribution and retailers are undoubtedly now reduced to the lowest levels in many years. Retail stocks are visibly much reduced, in quantity, variety and quality, and it is the common experience of housewives in buying cotton goods in recent months that they can secure what they want only in a small fraction of cases. Usually they must accept either a substitute, a poorer quality product, or a reduced quantity of the product through retail rationing. Rationing likewise prevails in the wholesale distribution, from manufacturers down to retailers, and they are all reported to be operating with much reduced stocks and a rapid turnover.

Reports from the manufacturing end continue to show that the mills have about all the business they can handle - currently and for months ahead. The principal difficulty continues to be that of raw materials - where more tension is now anticipated after a definite easing in 1938. It appears that the recent curtailments in raw cotton allotments have resulted in reduced production, at least in some mills.

Export business is not progressing well, with complaint generally as to the strong competition from Italy, England, France and Japan. The state of domestic business removed the sting of this as a sales problem for most exporters, but it is none the less bad for those which are specialized, and exceedingly unfavorable from the standpoint of its effect upon raw material supplies for the industry as a whole. Textile exports have been relied upon to provide the foreign exchange for a considerable share of raw material needs, so a drop at this time is doubly unwelcome.

Cotton Fabrics Exports

Month	1936	1937	1938
	1,000 lb.	1,000 lb.	1,000 lb.
August	4,855	5,756	4,694
September	4,017	6,082	5,359
October	4,420	6,715	4,094
November	3,776	5,370	5,730
December	4,597	6,397	4,519
Total	21,665	30,320	24,396

Reports emanating from Chemnitz, however, stress the fact that the textile industry in Saxony is optimistic in its outlook for 1939, even as regards exports. Exporting firms are preparing for more intensive sales campaigns, it is understood, in southeastern Europe and South America during the present year in an effort to substitute other markets for those lost as a result of the shift on export business in recent months.

The textile industry has shown considerable interest in present plans for linking larger Egyptian purchases of German cotton goods with the German imports of raw cotton from Egypt.

According to the Egyptian Chamber of Commerce in Germany, two representatives of the German cotton textile industry have gone to Cairo to discuss questions relating to the division and control of contingents. It is understood that Germany wishes to export chiefly finished fabrics. Trade circles in Germany are reported to have felt that, due to the substantial possibilities offered by these import contingents, measures should be taken immediately in order that all arrangements might be in readiness by February, when the purchasing season begins.

From Egypt it is reported, according to the "Berliner Tageblatt", that there is a special demand for colored fabrics, due to the fact that the young Egyptian textile industry has not, as yet, been able to create the production capacity necessary to fully meet the growing demand in this field.

Reports from former Austria indicate that there has been a considerable increase in employment in the textile industry in recent months, with the total number of persons now employed exceeding that of a year ago by 20 to 40 percent.

Reorganization of the Austrian textile industry, which was begun shortly after the Anschluss, continues apace. In the weaving industry individual firms are reported now to be specializing in a limited number of products and, as a result, there has been a substantial decrease in the large variety of samples that were formerly prepared by each plant.

Numerous technical changes are being brought about and the so-called "Austrian contingent", for the German textile industry as a whole, has been prepared on the basis of needs to be fulfilled. At present the production of mixed yarns will, it is believed, require further technical readjustment.

It is reported that the production of cell wool will be started in new mills in the Linz region this year.

Czechoslovakia

The Czechoslovak textile industry is reported to be making considerable headway again, although general recovery from the industrial paralysis which set in shortly before and after the October crisis is necessarily slow.

Cotton spinning mill activity has improved, but the margin of profit is reported to be unsatisfactory because of increased production costs. Prague reports state that yarn exports are suffering from Belgian and English competition in this field. Deliveries to Sudeten-Germany on the basis of old contracts will soon come to an end and quantities now being delivered are not large. Cotton weavers report that sales have been slack during recent months and only certain kinds of white cotton fabrics are in lively demand.

The $80,000,000 loan to Czechoslovakia which is being jointly guaranteed by the British and French Governments has created much optimism in Czech trade circles. The loan is subject to certain conditions. It will be used for economic rehabilitation and, particularly, assistance to refugees.

The statistical services of the present Czechoslovak State have not yet been completely adjusted to the new conditions prevailing throughout the country, with the result that basic and very detailed information concerning conditions during the last 3 months is not yet available.

The following table, reproduced from the January 6, 1939, edition of the Economische Voorlichting, shows the position of the textile industry in present-day Czechoslovakia to be as follows:

Textile Plants	Unit	Drawing of the new Boundary: Before	After
Cotton spinning plants	Spindles	3,281,736	1,616,21[illegible]
Wool spinning plants	"	322,845	56,93[illegible]
Flax spinning plants	"	171,224	34,33[illegible]
Jute spinning plants	"	43,500	28,000
Worsted spinners	"	490,000	125,000-160,000
Hemp spinning plants	Plants	2	[illegible]
Rayon factories (production)	Kilograms	4,200,000	1,200,000
Wool and Rayon weaving plants	Spindles	123,738	79,84[illegible]
Hemp weaving plants	"	7,500-8,000	4,000
Jute weaving plants	"	2,586	1,33[illegible]
Wool weaving plants	Plants	144	80
Natural silk weaving plants	"	30	3
Cotton printing plants	Presses	167	10[illegible]
Processing industry for cotton goods	Plants	54	20

Poland

A full report has now been issued 2/ concerning the December conference of Polish government, industrial, scientific, economic and agricultural leaders to discuss the achievements resulting from, and the future plans for, the use of artificial fibers in the Polish textile industry.

2/ Report No. 875 American Embassy, Warsaw, December 30, 1938.

The main points, which follow the brief resume in last month's report, are:

(1) The Polish Government has set 30 percent as the percentage of textile raw materials which should be composed of domestically produced fibers. While it was originally intended that this ratio should be attained in 1939, present indications are that it will not be achieved for another 3 years. The program of the Polish Government in this regard is largely based on Italian and German policy and experience.

(2) The raw material requirements of the cotton spinning industry are set at 88,800 metric tons for 1939, a 5 percent increase over 1938 which arises out of (a) normal population increase, (b) demand from regions recently acquired from Czechoslovakia and (c) increased consumption resulting from improved economic conditions. Of this 88,800 metric tons, some 9,500 metric tons, including 3,500 metric tons of cotonina, will be composed of substitute fibers of domestic production. Thus, substitutes will account for 12 percent of the raw materials in relation to cotton and to 10.7 percent in relation to the total demand (yarn, etc.) of the industry.

(3) The cotton textile industry will be given a bounty of 1 zloty (19.3 cents) in cash and an excess quota of one kilogram of imported raw cotton for every kilogram of cotonina utilized. Individual textile plants which do not work up cotonina will have their quota of raw cotton reduced; thus, the element of compulsion in favor of cotonina is introduced. The bounty for the use of cellulose fiber in the cotton industry has been reduced to .25 zloty (5 cents) per kilogram this year because of increased domestic production and reduced prices of cellulose textile fiber. The compulsion to utilize it in order to obtain a full quota of raw cotton fiber is retained.

(4) The woolen industry will require in 1939 in the carded branch some 22,100 metric tons of raw material, including 20,100 metric tons of imports, and the equivalent of 2,000 metric tons of domestic cellulose and casein fibers (10 percent of imports), and in the coarse branch some 7,000 metric tons of raw materials of which the equivalent of 3,000 metric tons will be composed of domestic cellulose and lanital (casein) fibers with 2,000 metric tons of washed wool to be imported. Thus, domestic raw materials will account in 1939 for 12 percent of the coarse wool industry and 9 percent of carded wool industry insofar as raw materials are concerned.

(5) The Government estimates that some 12,000,000 zlotys (about $2,250,000) in foreign exchange will be saved in cotton imports and 11,000,000 zlotys (about $2,050,000) in woolen imports by the use of domestic substitute raw materials in

1939. In order to simplify imports, the Foreign Exchange Commission is to allocate foreign exchange for cotton imports 3 months in advance in 1939 rather than 2 months as heretofore.

(6) Special efforts are being made to substitute domestic hemp for jute in low quality bags and a combination of domestic flax fiber and jute for higher quality jute products. This latter combination will be more costly, but it is believed the quality will be improved and the saving in foreign exchange will be considerate.

Belgium

The recession experienced by the Belgian textile industry in 1938 continued unrelieved in January of the New Year. Following the currency readjustments of April 1935, a marked recovery took place in Belgian industrial production which extended through 1937. Although exports of cotton textiles did not correspondingly improve, a very substantial increase occurred in cotton mill activity. By 1937 yarn production had exceeded that of any previous year by about 15 percent and had more than doubled its volume of 1934. In 1938, however, spinners began to encounter difficulty in disposing of their yarn output and stocks accumulated. The partial disintegration of the cartel, said formerly to have marketed about 90 percent of Belgian yarn production, has allowed prices to fall to levels generally regarded as unremunerative. The rate of spinning mill operation in January was believed to be not over about 70 percent of normal.

Some part of the present situation is attributed to the falling off of export sales which ordinarily account for about a third of production, and a commission has now been despatched to South America to explore the possibilities of a revival of trade especially with Argentina. As another measure of relief, the linking the Belga to sterling rather than, as now, to gold is mentioned.

As in other free exchange countries, spinners are in large part confining purchases of cotton to their short-term needs and seeking the cheaper exotics, wherever their work will permit the substitution of these growths for American. In particular, Belgian Congos of about Good Middling grade and 15/16 inch staple are reported as having been taken in quantity at discounts of 30 to 40 American points from prevailing prices of Strict Middling 15/16 Texas cotton.

France

Although for a part of January the market for cotton textiles seems to have been somewhat quiet, the improvement which began to be evident in France during the autumn appears to have been well maintained. Further progress in the government program for redress of the national economy and restoration of confidence appears also to have been made. The Bank of France on January 3 announced another reduction in its rate of discount, this time from 2½ to 2 percent. "The revival of business", it says, "is on its way".

The textile trade has gained no help from the disturbed state of French relations in the Mediterranean and is confronted with the perplexities in the international raw cotton price situation common to all consuming countries in the free exchange category. Moreover, the firmness exhibited by the

franc in the foreign exchange market, it is said, has now definitely removed one incentive for heavy anticipatory buying whether of raw cotton, yarn or goods. That these factors, singly or collectively are exerting a retarding influence is suggested in reports that a substantial part of the usual large-scale metropolitan buying has yet to appear. Nevertheless there seem to be elements of vitality in the market which for the present tend to sustain demand against the weight of depressing factors. Cloth orders for the African colonies, the bulk of which are placed seasonally in December and January, have been very satisfactory. Although prices are as yet too low to be generally remunerative, present levels enable the French industry again to compete effectively in the markets of foreign countries. Gains of trade in yarns and goods with Switzerland and Holland, though not yet sharply apparent in the delayed export statistics, are reported to be developing, partly at the expense of Belgium.

In place of the 32-hour week to which mills had by agreement restricted operations in the summer months, spinners in January were on the regular 40-hour base week with operations actually extending in many cases to 45 hours, in some cases even to 48 hours. Spinners have apparently covered their raw cotton requirements as far ahead as they could sell yarns.

Italy 3/

No change worthy of note appears to have occurred during January in the situation of the Italian cotton trade and industry. The uncertainty with respect to the domestic market, as well as in regard to international political developments, seems to have left cotton manufacturers no alternative to a continuation of the hand-to-mouth practices in both the buying of cotton and the production of cotton goods that characterized this market during the last quarter of 1938. Some reports indicate a slight improvement in the domestic demand for cotton goods, owing to the depletion of stocks and the steadily rising prices which tend to stimulate the demand. The foreign market was unsettled by the fear of war, as in the preceding month. The loss of so large a portion of the Egyptian market remained the most serious setback in this trade, although the declining demand from the Balkans promised further losses. Activities of Italian cotton mills remained well below the level of their operation a year ago.

The ban placed by the National Fascist Federation of Cotton Industrialists of Milan, on December 29, 1938, upon the exportation of Italian cotton goods to Egypt pending the adjustment of the difficulties existing between Italy and Egypt with respect to this trade was partially lifted at the end of January in order to permit the exportation of Italian cotton yarns to Egypt, although no evidence of the settlement of the difficulties referred to has been noted. Apparently, the loss of this market for cotton yarns was felt too severely by the Italian spinners to be voluntarily given up for long. Nor can the cotton manufacturers of Italy do without Egyptian cotton altogether for any considerable length of time without endangering the loss of valuable markets for the finer types of cotton products which they make.

3/ Information received from the American Consul General at Milan.

Negotiations for a trade agreement with Argentina are still going on, due to insistance on the part of Argentina for a quota of wheat exports to Italy in exchange for Italian cotton goods, whereas Italy prefers to take Rumanian wheat. On the whole, however, the outlook for foreign sales of Italian cotton goods appeared no brighter at the end of January than a month earlier.

The founding of a company to buy and import cotton for Italian spinners is now generally confirmed by Milan cotton trade circles, apparently on the general design of the recently organized firms to import coffee, spices, rubber, lumber, etcetera. For the present, it seems likely that this company will only handle orders for cotton intended for the manufacture into goods for consumption within Italy, while producers who export cotton products will continue, at least for the time being, to import raw cotton for their own use as heretofore, using the foreign exchange obtained from their exports of cotton goods. It is said that this company will restrict its purchases to cotton-producing countries that will bargain for Italian exports, like Turkey, Argentina, Brazil, etcetera.

It is asserted that the new company will be a private concern, made up of Italian cotton spinners and weavers who will also furnish its capital; but it is apparently still an open question as to whether its director will be some outstanding member of the cotton trade or industry or a government official, and it is no secret at all that the company will be controlled by Italian officials whose policies it is designed to execute. The question of its eventual control over the exportation of cotton goods is still undecided but has by no means been abandoned, since it is clearly one of the purposes of the official control of the newly organized import companies to use the opportunities which they afford to promote in every possible manner the exportation of Italian goods.

The Minister of Corporations in Rome, in an announcement dated January 19, 1939, fixed the maximum prices at which mixed textile yarns may be sold in Italy at the following rates, Base 20, per kilogram: Yarns containing 25 percent cotton and 75 percent of "national fibers", Lire 4/ 12.85; yarns containing 50 percent of cotton, Lire 14.50; yarns containing 75 percent of cotton, Lire 16.15.

The Istituto Cottoniero (Cotton Institute) in Milan is authorized to calculate the prices of other mixtures upon the basis of these prices and to publish daily prices on these three mixtures. Those quotations have not varied since the original announcement above quoted, but the daily bulletin of the Institute has contained an additional quotation on yarn made of pure staple fiber (clear) at 11.20 per kilogram which has also remained unchanged.

It will be recalled that all so-called cotton textiles manufactured after January 1, 1939, must contain substitute fibers called "national fibers", equal to at least 20 percent of their total content and that the favorite "national fiber" is staple fiber.

4/ Lire 1.00 equals 5 cents at the current rate of exchange.

ORIENT 5/: Mill activity continues high in India, but low in Japan and China

Although the approximate 275,000 bales (of about 400 pounds net weight) of Indian cotton consumed by Indian mills in January was slightly less than the record consumption of December, it was the largest with that exception for any month in history. As compared with January of last year the increase was 4 percent. In each of the past 19 months, Indian mills have consumed more Indian cotton and possibly more cotton of all kinds than in any previous corresponding month. The 1,600,000 bales of Indian cotton consumed from August to January was 9 percent larger than in the like period of last season. To a considerable extent this record mill consumption in India is due to the displacement of British and Japanese cotton textile imports by goods made in India.

The indications are that Japanese mill consumption of cotton in December and January was about unchanged. In late January, however, some observers estimated that at the existing rate of foreign exports and domestic requirements for cotton textiles, cotton consumption would be further reduced by nearly 15 percent. In December and January, consumption was about one-fourth to one-fifth less than a year earlier and the smallest for the period in 7 or 8 years.

In January, Japanese exports of cotton cloth dropped 100 million square yards or 42 percent under those of December and were the smallest for the month of January since 1932. Total exports for 6 months August through January, of 1,108,000,000 square yards, were about 17 percent less than in the corresponding period of last season and the smallest for the period since 1933-34.

5/ Information with respect to China and Japan based largely upon radiograms from Shanghai transmitting material prepared by Agricultural Commissioner O. L. Dawson at Shanghai and American Consul McConaughy at Osaka, Japan.

It is estimated that in January, cotton mills in China and Manchuria consumed about 150,000 bales of cotton compared with 140,000 bales in December, 135,000 bales in August and 85,000 bales in January last year. This was the largest consumption for any months since immediately following the outbreak of hostilities with Japan in December of 1937. The first 6 months of the season mill consumption is tentatively estimated at 830,000 bales. This is equivalent to an annual rate of 1,660,000 bales.

ACREAGE, PRODUCTION, STOCKS AND SUPPLY

Government loan stocks greatly reduces supply of "free" cotton

On February 1 domestic stocks of American cotton totaled about 17-1/2 million bales. This was nearly 2 million bales larger than the previous record stocks as of that date and more than twice as large as the average for the 6 years ended 1930. Because of the large Government loan stocks, however, total stocks of so-called "free" cotton as of that date were the third smallest in 15 years and one-fourth smaller than the 6-year pre-depression average.

During the 4 weeks ended February 23 the quantity of the 1938 crop pledged under Government loans was increased by 200,000 bales. During the preceding 4 weeks 390,000 bales were pledged. It is generally expected that these pledges will continue small until the expiration of the loan. As of February 23 loan stocks totaled a little over 11,100,000 bales. The peak for the season probably will be in the neighborhood of 11-1/2 million bales.

Indian acreage and production materially reduced

The 1938-39 Indian cotton acreage was recently tentatively estimated at 23,483,000 acres, according to a cable recently received from the Indian Government at Calcutta. This figure which excludes Burma, is approximately 1,850,000 acres or 7 percent less than the corresponding revised estimate for last season. The current season's production excluding Burma is tentatively placed at the equivalent of 4,085,000 bales of 478 pounds net compared with the revised estimate of 4,755,000 bales for last year.